

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 8, 2020

Volume 13 Issue 174

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 1st 10-day low in a while is often buyable.
- SPX and VIX both having sizable drops is notable and could be bullish.
- Labor Day week seasonality has been poor when SPX has risen over the previous 4 weeks.
- The NASDAQ leadership over SPX again appear tenuous.
- The SOMA continues to rapidly expand as the Fed is still providing massive liquidity.

Short-term Outlook

The Bottom Line

The Aggregator bullish. While the is a little bit light, I believe the upside edge is strong enough that I will look to start building a long index position.

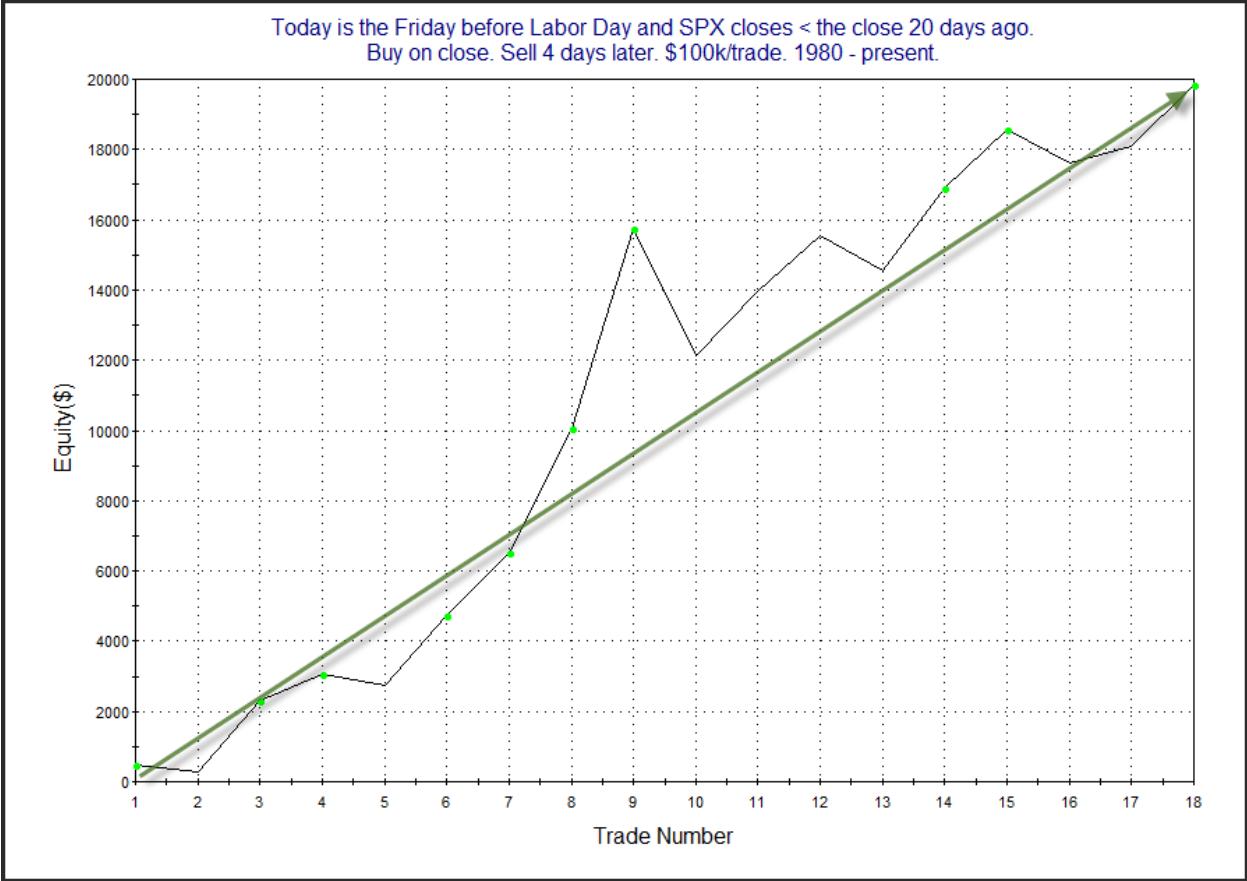
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 8, 2020	1st 10-low in 30 days > 200. ADX>14.	1-6 days	Bullish	2.20%	-1.40%	-3.10%
Active - Long Term						
September 8, 2020	SPX down 0.75% with VIX down 7.5%	1-10 days	Bullish	7.80%	-1.20%	-3.10%
September 8, 2020	1st 10-low in 30 days > 200. ADX>14.	1-10 days	Bullish	3.00%	-1.90%	-4.20%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
July 24, 2020	NDX big dn day. SPX new high.	1-50 days	Bullish	6.00%	-2.85%	-5.50%
July 9, 2020	Golden Cross	int term	Bullish			
June 8, 2020	3 Breadth Sigs (BAM/90%Day/A-D Hi)	1-63 days	Bullish			
April 29, 2020	Sell in May after 5% drop Jan-Apr	6 months	Bearish			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
September 4, 2020	1 close < 10ma in 25+ days	1-4 days	Bullish	1.60%	-0.70%	-1.50%
September 4, 2020	Unfilled gap to 20 hi then unfill dn	1-3 days	Bearish	-1.20%	0.60%	1.10%
August 31, 2020	SPX up 7 days in a row > 200	1-20 days	Bullish	3.00%	-2.00%	-4.20%
August 27, 2020	RSI2 crosses over 99	1-11 days	Bullish	1.80%	-1.30%	-2.70%

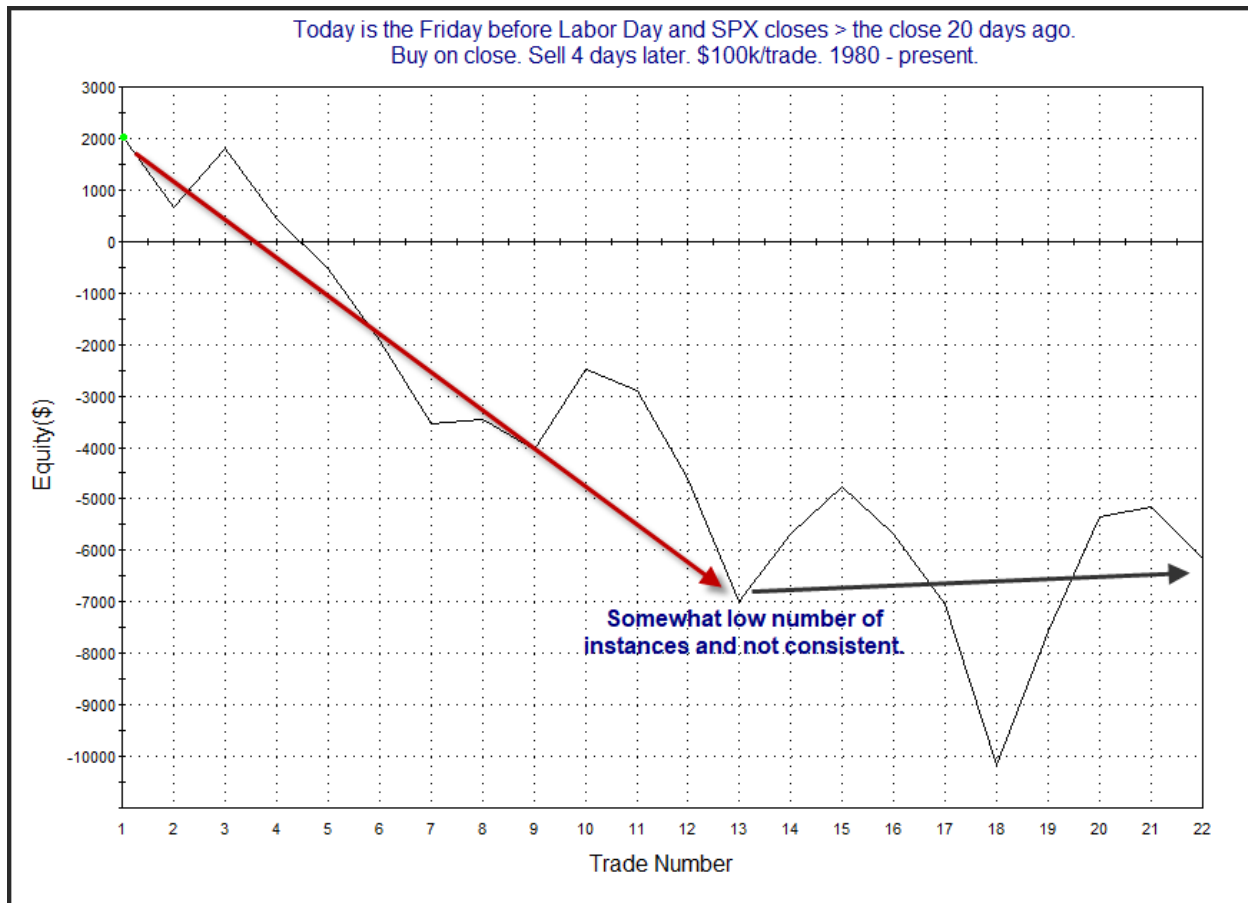
The Evidence

Friday saw a 2nd day of strong selling ahead of the long weekend. The SPX lost 0.8%, the NASDAQ tumbled 1.3%, and the Russell 2000 fell 0.6%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 48.5%. NYSE total volume declined some from Thursday's level.

Over the last few years, and most recently in the 8/30/19 letter, I showed that Labor Day week performance has been somewhat dependent on whether the market has rallied over the 20 trading days leading up to it. Below is a look at post-Labor Day performance when the previous 20 days have seen gains versus losses.



Late summer weakness has often been followed by post Labor Day strength. But here is how it looks when the SPX had shown a net increase over the 20-day lead-up, like it has this year.



Not so impressive here. Overall numbers are bearish, but there has not been enough consistency among recent instances for me to include this on the Active List. Still, it is worth noting that we could see some seasonal weakness this week.

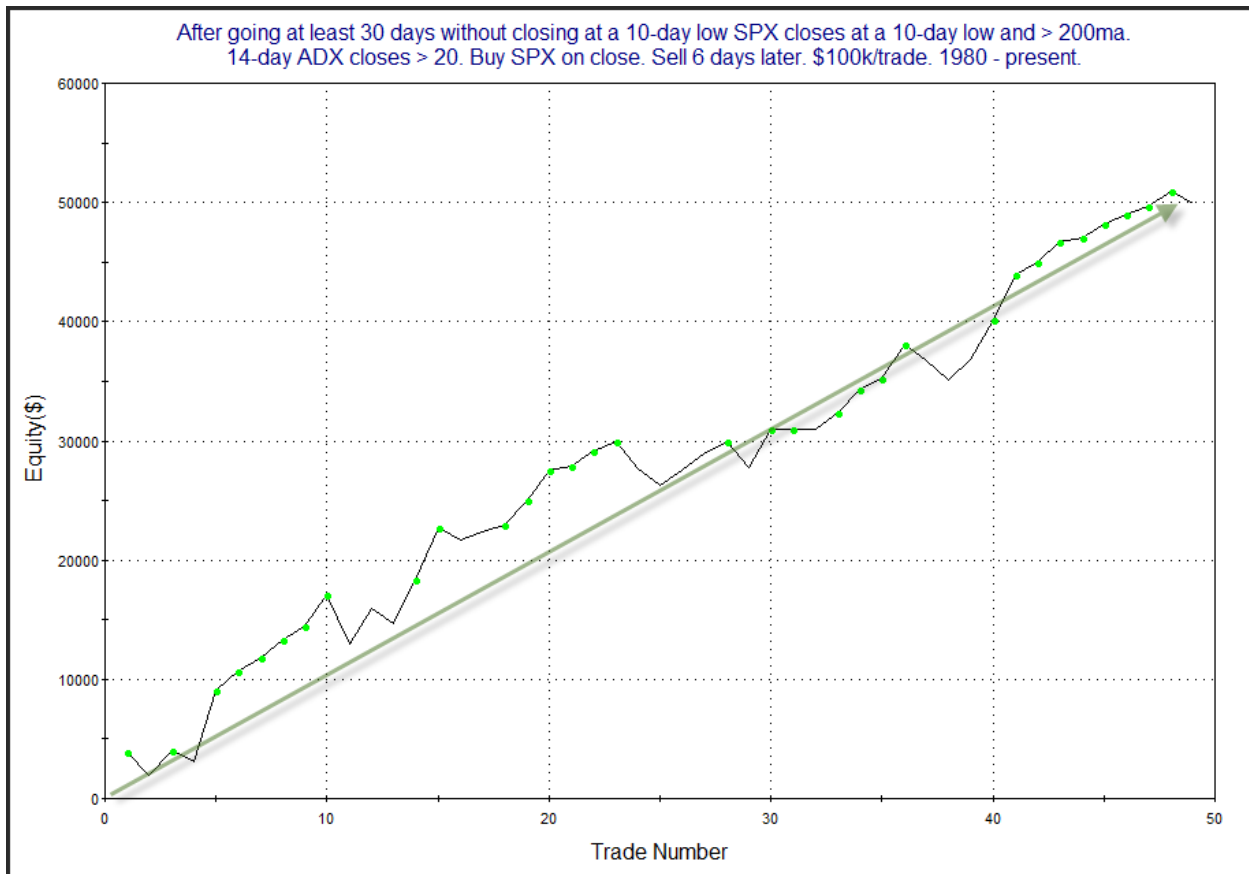
Notable about the close on Friday is that it was the 1st 10-day low close since June 26th. Before today SPX had gone 48 trading days without closing at a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after a long time without one has provided a solid upside edge. In the past I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. I last shared the study below in the 8/2/19 letter. Results are updated.

After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low and > 200ma.
 14-day ADX closes > 20. Buy SPX on close. Sell X days later. \$100k/trade. 1980 - present.

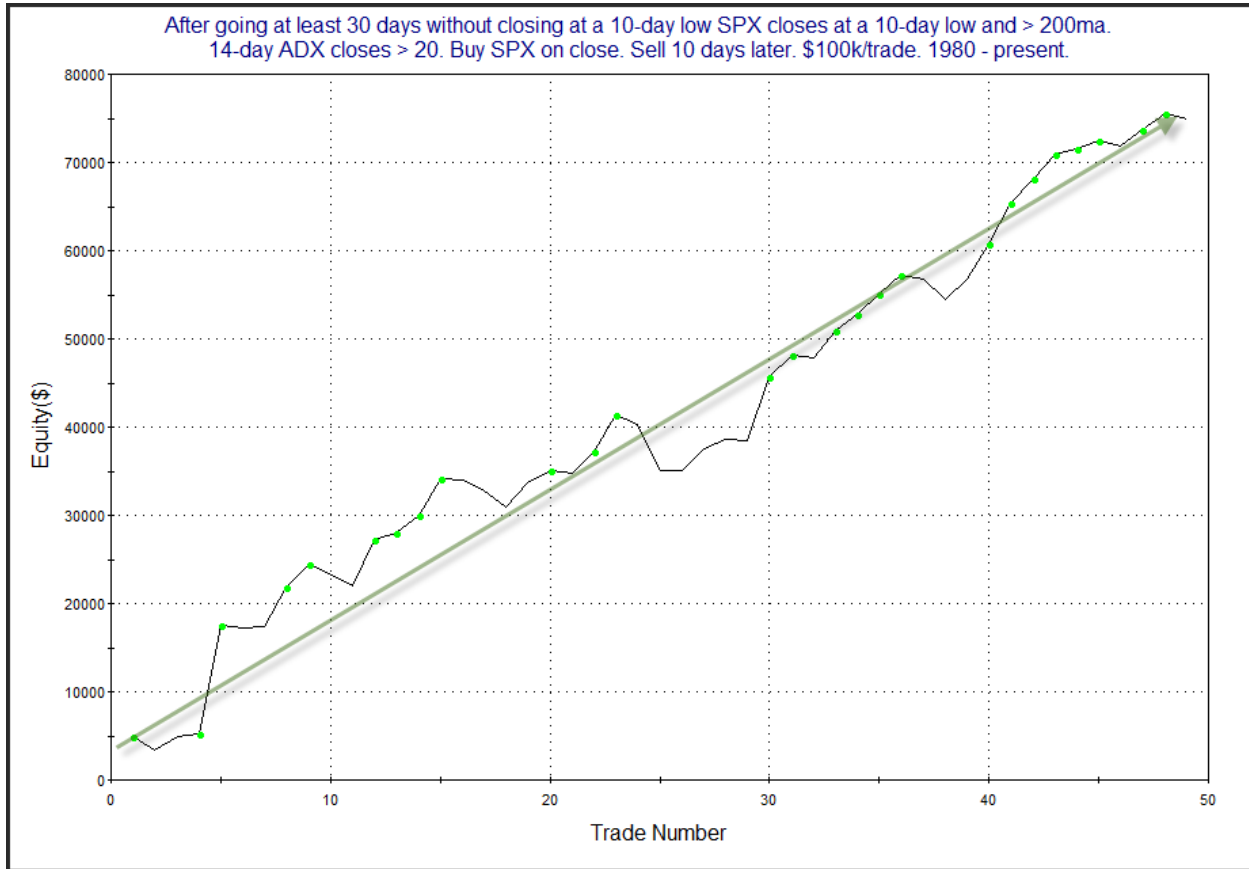
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	74,910.84	49	33	16	67.35	12,395.76	-5,362.24	2,838.13	-1,171.71	2.42	5.00	1,528.79
9	72,515.67	49	36	13	73.47	10,529.82	-3,753.36	2,504.43	-1,357.23	1.85	5.11	1,479.91
8	69,249.86	49	38	11	77.55	10,554.48	-6,117.72	2,301.48	-1,655.12	1.39	4.80	1,413.26
7	50,606.71	49	35	14	71.43	7,743.24	-8,141.12	2,240.01	-1,985.26	1.13	2.82	1,032.79
6	49,859.64	49	37	12	75.51	5,893.74	-4,111.40	1,870.15	-1,611.33	1.16	3.58	1,017.54
5	42,713.62	49	34	15	69.39	4,608.35	-3,502.11	1,804.58	-1,242.80	1.45	3.29	871.71
4	38,507.53	49	38	11	77.55	4,690.50	-2,616.60	1,493.41	-1,658.37	0.90	3.11	785.87
3	19,617.63	49	33	16	67.35	3,940.55	-4,464.88	1,163.86	-1,174.36	0.99	2.04	400.36
2	8,305.27	49	30	19	61.22	3,744.45	-7,559.56	983.40	-1,115.61	0.88	1.39	169.50
1	5,097.65	49	28	21	57.14	2,287.60	-1,922.40	679.76	-663.60	1.02	1.37	104.03

46 of 49 instances (94%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a 6-day profit curve.



This profit curve also shows a strong steady upslope. And here is the 10-day.



This curve is just as impressive. I have added this study to both the short and intermediate-term active lists.

VIX action was also notable. With SPX closing down 0.8%, VIX closed down 8.5%. It is rare that both SPX and VIX drop such large amounts on the same day. Below is a new study that looks at other times SPX closed down at least 0.75% while VIX dropped at least 7.5% on the same day.

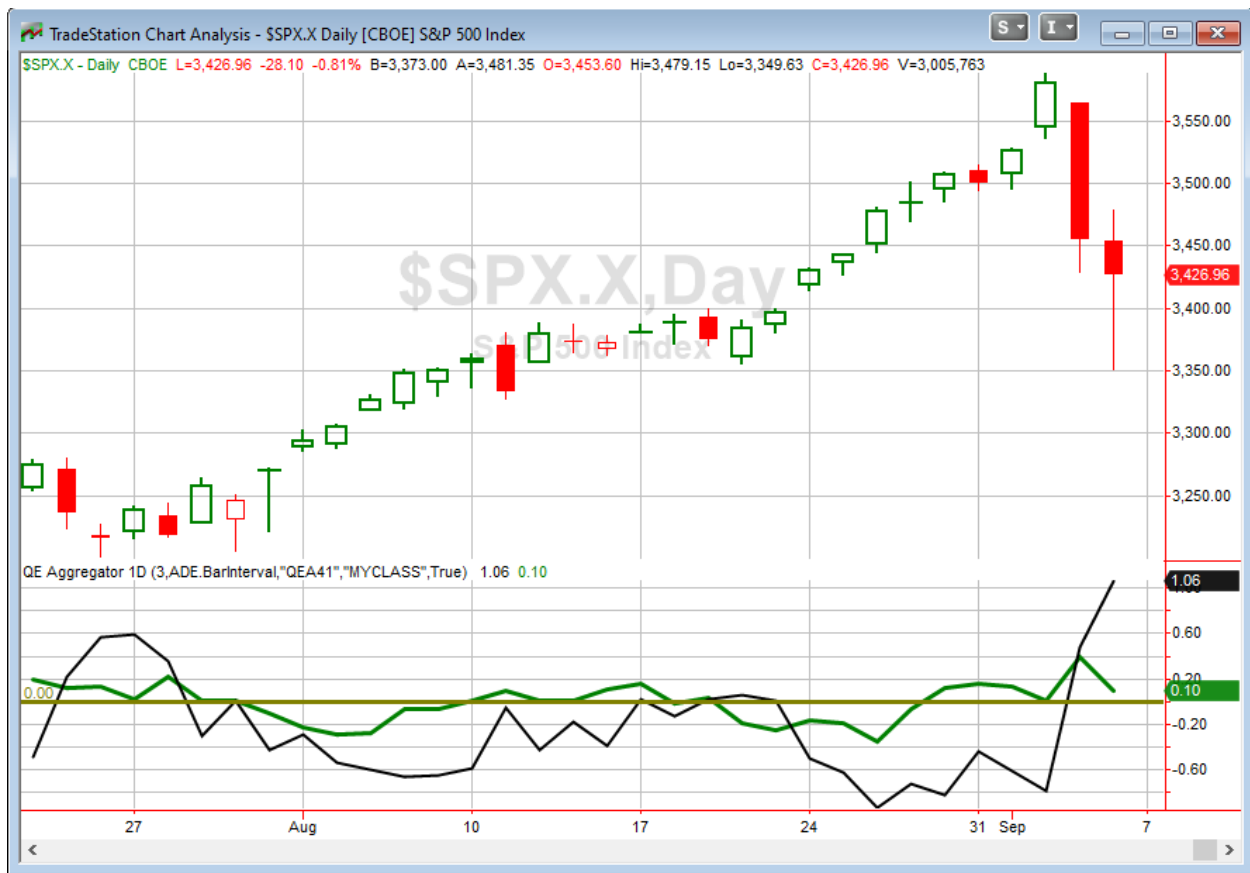
SPX closes down > 0.75%. VIX closes down > 7.5%.
Buy SPX on close. Sell 10 days later. \$100k/trade. 1991 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/26/1991	Buy	\$362.81	1.99%	\$4,631.00
3/12/1991	Sell	\$370.03		\$0.00
3/12/1991	Buy	\$370.03	1.69%	\$2,227.50
3/26/1991	Sell	\$376.30		(\$1,201.50)
10/4/1991	Buy	\$381.25	2.95%	\$3,290.72
10/18/1991	Sell	\$392.50		(\$1,346.68)
8/25/2015	Buy	\$1,867.62	3.98%	\$6,670.58
9/9/2015	Sell	\$1,942.04		\$0.00
3/20/2020	Buy	\$2,304.92	7.97%	\$14,468.21
4/3/2020	Sell	\$2,488.65		(\$4,861.58)
4/3/2020	Buy	\$2,488.65	13.44%	\$15,622.80
4/20/2020	Sell	\$2,823.16		\$0.00

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There have only been 6 other instances, and the last couple, which took place in March and April, were greatly outsized. So it is difficult to use this to generate estimates. But the numbers are very impressive. The average return looking out 10 days is 5.3%. The average run-up is 7.8%, and the average drawdown just 1.2%. I did add this to the intermediate-term action list, and I do think it is worth keeping an eye on. I did not add it to the short-term active list, nor did I utilize it within the Aggregator calculation due to low number of instances and the extreme differences in returns.

I have updated [the Aggregator chart](#) below.



With tonight's mix of studies considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is now very far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Tuesday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3585.15 on Tuesday. That is a massive 4.6% above Friday's close. It is highly unlikely we will see a 1-day rally of that magnitude. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

The Aggregator is bullish. Evidence is ok, not great. But there is so much reward potential before the market would turn overbought, it certainly seems like an opportune time to start scaling into a long position. I'll be looking to take on some on Tuesday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/5 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 combo systems remained “long”.*

With Thursday and Friday’s selling, the major indices all closed lower on the week. The SPX lost 2.3%, the NASDAQ fell 3.3%, and the Russell 2000 declined 2.7%. New all-time highs were made for the SPX and NASDAQ on Wednesday, so the long-term uptrend still appears to be intact. The move lower the last couple of days did manage to knock a few of the bullish intermediate-term studies off the Active List, as it exceeded a typical drawdown plus another standard deviation.

Another indicator that again looks to be in danger of losing its bullish status is our NASDAQ/SPX Relative Strength indicator. I have pasted a copy of it below from the site.

NASDAQ/S&P 500 Relative Strength Weekly



I won't go into great detail about this again because I have already discussed it several times this summer. If you want details and information on this indicator, you can find some intro material on the blog [here](#) and [here](#). The most detail can be found in the Market Timing Course, which is free for all annual subscribers.

If the green line were to fall below the blue line, that would signal the NASDAQ has fallen from a leading to a lagging position. The NASDAQ has been leading for over 10 months now, which is the longest streak ever for this indicator. As I have noted before, the 2nd longest streak ended in March of 2000 right after the NASDAQ topped and the market entered a long and deep bear market. If NASDAQ leadership is to roll over, that could be a bad sign, and this indicator could help give us some warning.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

« As of 08/26/2020

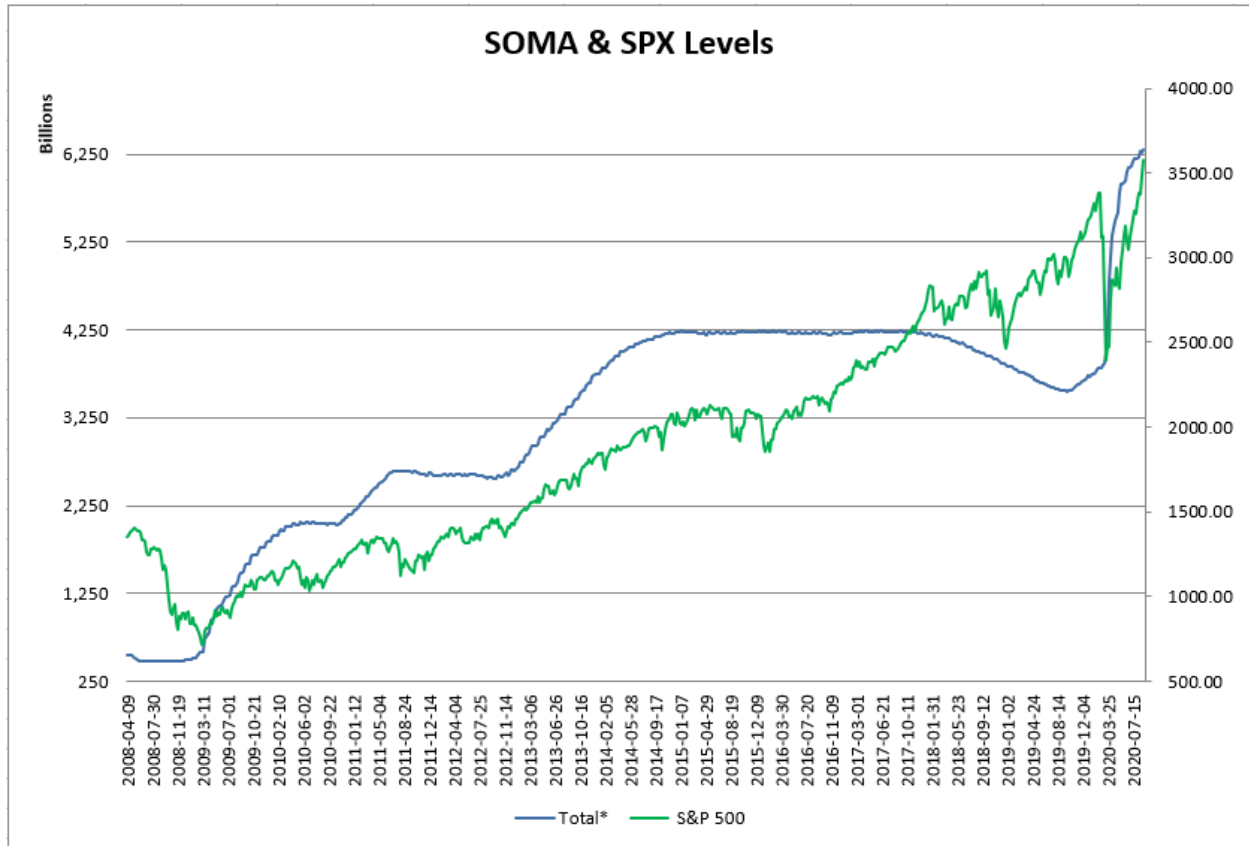
DOMESTIC SECURITIES HOLDINGS AS OF
September 2, 2020 📅

Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies	
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,726,532,562.0
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	279,914,826.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,939,922,412.1
Agency Commercial Mortgage-Backed Securities***	9,313,092.1
Total SOMA Holdings	6,300,170,367.4
Change From Prior Week	27,476,029.9

*Does not reflect inflation compensation of 38,049,132.4
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

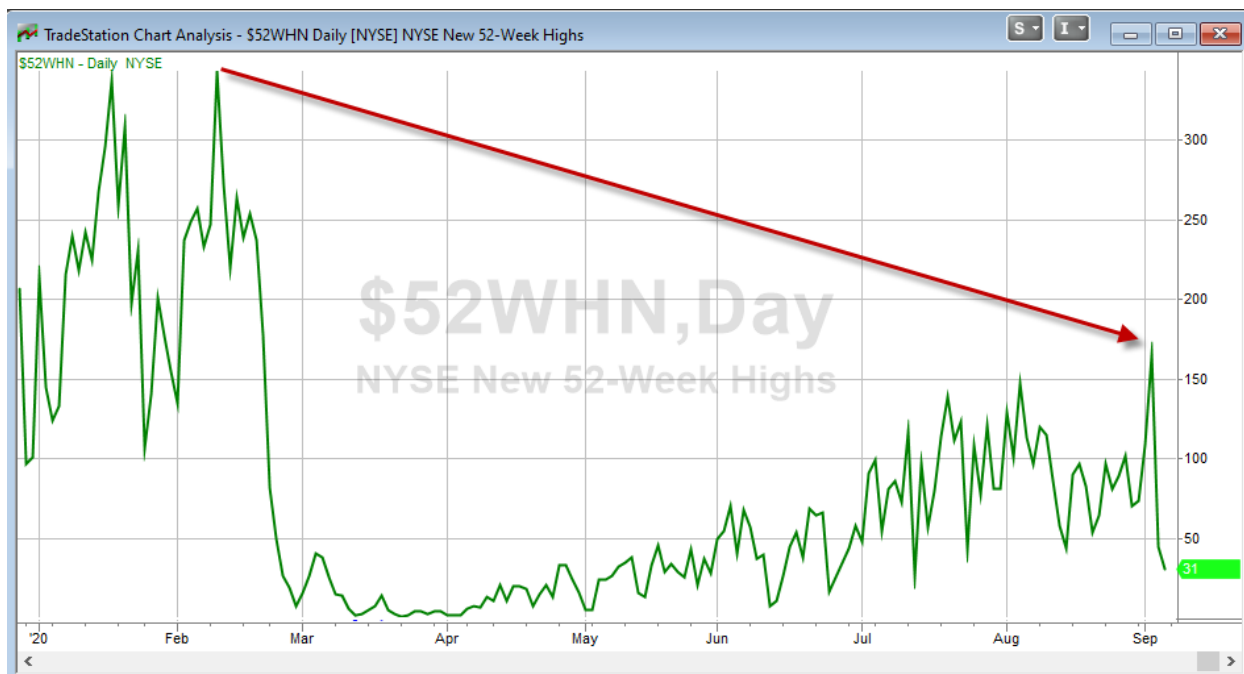
Data posted on 09/03/2020 4:30pm.

This past week saw the SOMA rise by \$27.5 billion. That is a big number. Overall, the Fed is still pumping strongly, and I am not seeing anything that would lead me to believe that is about to stop. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is still in the midst of the largest expansion in history, and the expansion is not likely to end anytime soon. We have seen some wiggles in the SOMA in the last couple of months, as not every week has seen strong buying. That is normal calendar-induced wiggling, similar to what we saw with earlier QE expansions. You’ll note on the chart the same type of pattern during 2009 and 2013-14. I believe the Fed will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

Breadth has been an issue with the recent rally. Much of the index gains have been attributable to the largest NASDAQ stocks. While the SPX and NASDAQ have been making new all-time highs, the number of NYSE stocks that have been making new highs remains quite low. This can be seen in the chart below.



This indicator peaked in February at 343. But the highest it has reached during this rally has been just 165, which means less we have seen less than ½ the number of new highs we were seeing during February, despite the index making higher highs. That is not a signal to short, but it is a warning sign that the rally is not exactly healthy. To have confidence that the rally is likely to continue we would want to see this number rise substantially.

Overall, my intermediate-term outlook remains similar to the last few weeks. The intermediate-term active list is predominantly bullish, though the steep pullback the last few days has shortened the list a bit. NASDAQ leadership remains in place, but that could easily flip if the NASDAQ underperforms again this week. Bears can point to all the uncertainties related to COVID, social unrest, government stimulus changes, unemployment, and the economy in general. High valuations and weak breadth could also be problems. But massive liquidity and momentum has mattered more than anything else. At some point that may change, but it has not yet. I will remain slightly bullish and alert to potential changes. This means I will be taking a more conservative approach to potential shorts than to long trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

SPY – Buy ¼ index position @ \$342.57 LIMIT. Based on the short-term outlook above, I will look to take on some SPY exposure if I can get filled at Friday’s closing price or better.

Current Open Trade Ideas

None

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